IMPACT OF FOREIGN DIRECT INVESTMENT ON GROWTH AND DEVELOPMENT OF INDIAN PUBLIC SECTOR COMMERCIAL BANKS: WITH SPECIAL REFERENCE TO PUNJAB NATIONAL BANK

A Synopsis

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1.1 Introduction

The capital raising capacity of India is very less to make the Indian Banking Sector worldwide, this sector require Investment from abroad. FDI plays a crucial role in enhancing the economic growth and development of the country. FDI is a significant factor which influences the level of economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country. It also contributes to the GDP and foreign exchange reserves of the Country. Indian banking has undergone a sea change after liberalization and reforms. Liberalisation and reforms paved the way to Foreign Direct Investment (FDI) in Indian Public Sector Commercial Banks.

In the rapidly changing economic environment, Foreign Direct Investment (FDI) is used as the stimulus for growth in the most developing countries including India. Globalisation has engulfed all the sectors into its fold, out of which the banking sector is a crucial one. FDI in Indian Banking Sector has a lot of opportunities as well as challenges. Foreign Direct Investment (FDI) is considered to be the lifeblood of economic development mainly for the developing and under developed countries. With the start of globalisation, many developing countries, mostly those in Asia, are witnessing a huge flow of FDIs during the past two decades. As compared to other Asian countries India witnessed the FDI inflows much later, but ever since India have been a hub and an attractive FDI destination.

Indian banking has undergone a sea change after liberalisation and reforms. Liberalisation and reforms paved the way to Foreign Direct Investment into Indian Banking Sector. It is more than a decade now that have received Foreign Direct Investment (FDI) in Banking and therefore it is important to

see its impact on the Indian Public Sector Commercial Banking System. FDI is considered to be important contributor to the performance of India Banks. The amount of capital comes through FDI not only enables banks to improve basic infrastructure but also allow them to develop innovative products and services. FDI inflow supplements domestic capital, technology skills of a bank and these contribute growth to Indian economy. Government has tried to improve the structure of the Indian banking sector by offering licenses to latest generation of private sector banks.

Foreign Direct Investment plays an important role for the economy of the host country as it not only provides opportunities to enhance economic development but also opens several doors to optimize national earning by employing the resources effectively. FDI has contributed a lot in enhancing efficiency in the banking sector, creating innovative financial products and improving capitalization of banks by making them adaptable to changing market condition.

Punjab National Bank is an Indian public sector commercial bank based in New Delhi. this bank was founded in May 1894, is the 3rd largest public sector bank in the country in terms of business with more than 182 million customers, 12,250 bank branches and more than 13,000 ATM centres. foreign direct investment is a major driver of economic growth. FDI investment in nationalised banks are subject to overall statutory limits of 20% as under section 3(20) Of the banking Companies Act, 1980.

1.2 Literature Review

Singh Y., Bhatnagar A. (2011), In his study FDI in Indian Banking Sector An Analysis. The study found that private banks enjoy healthy rates of growth but FDI inflow in nationalized bank is still low. mostly public sector commercial banks are getting low FDI than private sector commercial banks.

Rajan (2008) opined that economic activity is an important determinant of FDI inflows in India and not vice-versa. India appears to be well placed in terms of reaping benefits because it has a relatively well-developed financial sector, strong industrial base and critical mass of well-educated workers.

Khan, (2012). Impact of FDI on GDP: A Comparative Study of China and India. The Study Found that 1% increase in FDI would result in 0.07% boost in GDP of China and 0.02% boost in Indian GDP. Further he suggested that China's growth is more affected by FDI than Indian Growth

Ramkishen Rajan (2010) supported the view on opening of a banking sector for foreign entry. Though foreign investment is allowed in the banking sector, the government is taking cautions view regarding performance and operation of foreign banks.

Malhotra (2014) in his study tried to study the trends and pattern of FDI along with assessing the determinant of FDI inflows. In his study he found that Indian economy has a tremendous potential and FDI has a positive impact. Further he found that FDI inflow supplements domestic capital along with technological development and efficiency. He further gave focus on the FDI requirement in Public Sector Banks.

Kumar G.L., (2010) "Banking Sector performance Through inflows of Foreign Direct Investment (FDI)", the study revealed that Foreign Direct Investment has a major role to play in the Banking Sector development of the host country. Most of the countries have been making use of foreign investment.

Janki (2009) pointed the effect of technology on labour productivity and amount of FDI. There is no doubt that banking needs to increase FDI to improve operating efficiency, and customer services. The study concludes that harnessing employee technology synergy is crucial for unleashing productivity.

Anuradha (2011), stated that "the need for the change of Indian banks and the forces behind the change like globalization, liberalization, international trade and FDI revolution etc. The study also highlights various consequences that are to be forced by the Indian banks if they wish to develop. She again highlighted the need of more FDI in Public Sector Banks for the growth.

1.3 Statement of the Research Problem

FDI has positive impact on the total business and income of the bank but it has negative impact on profit per employees and net profit of the bank. Sometimes FDI hinder domestic investment when local financial investors start losing their interest to invest in domestic product. Further the rate of FDI in Public Sector Commercial Banks is very low, which must be inhanced. The additional point which supported for raising voice against FDI in banking sector is, beside permitting the entry and consolidation of new private banks, the govt. announced a set of decisions with reference to FDI in banking sector. Which relaxed the capital on foreign equity in Indian banks to 20% in the case of public sector banks and 74% in the case of private sector banks. This was an additional permission to foreign banks to operate in the country in the country through wholly owned subsidies to increasingly relaxed rules. The RBI decided to retain the stipulation under the banking regulation act. FDI in the Indian Banking Sector is allowed under the automatic route. The problem with well-performing private banks is not that it is different to attract FDI. The problem is that the current rules do not allow entry of those whose intent is to exercise control over a local bank with an adequate shareholding and equivalent voting rights.

Therefore, if the need is to allow foreign equity infusion to meet prudential requirements such as the Basel norms, that is still possible. What is not allowed is the entry of single foreign investor seeking to establish or acquire domestic private banks with a controlling stake and voting rights. Liberalisation and Globalisation have provided challenges as well as

opportunities to Indian banking system. The progressive liberalisation process has freed the sector from excessive government control and restrictive regime. The banks in India are experiencing changes brought about by Basel norms, deregulation and entry of new banks. Against that background FDI and portfolio investment in the public or nationalized banks in India are subject to limit of 20% in totally. In order to make the Indian Public Sector Commercial Banks more competitive, FDI limits in Indian banking sector should be increased. This study intends to study the impact of FDI on the growth and development of Indian public sector commercial banks in general and the target bank i.e PNB in particular.

1.4 Objectives of the Study

Banking sector in India has created golden path in the development of Indian economy in generating wealth to the economy. In order to make Indian Banking Sector more competitive focus has been given on enhancement of FDI limit in banking sector of India.

Against that backdrop the main objectives of the study will be:

- To understand the need for FDI in Indian Banks.
- To study the impact of FDI in Public Sector Commercial Banks in India.
- To analyse the Impact of FDI on Growth and Development of Punjab National Bank.
- To offer suggestion in the light of the study.

1.5 Importance of the Study

FDI in banking sector solves various problems like inefficient Management, Non-Performing Assets, Financial Instability and Poor Capitalization. Further, FDI in Banking Sector provide benefits of Technology Transfer, Better Risk Management, Financial Stability, Innovative Products and Employment. Interestingly, FDI inflows in Banking

sector have been increasing year by year by an increasing trend. Globalisation has engulfed all the sectors into its fold, out of which the banking sector is a crucial one. FDI in Indian sector has a lot of opportunities. In present time, FDI of up to 49 percent is allowed in Private Banks without the permission of the government, and upto 74 percent can be invested with the government's approval. Raising the permissible limit for FDI in the banking sector could improve services and help meet minimum capital requirements. The Narendra Modi government is mulling to allow 100% Foreign Direct Investment in the banking sector and the Finance Minister may soon approach the Prime Minister's office for its approval. The finance Ministry is presently discussing and accessing the hike in FDI cap in the banking sector. The government may also hike FDI in Public Sector Banks.

1.6 Hypothesis:

Following Hypothesis will be testified:

1. **H_0** FDI has significant impact on the growth and development of Public Sector Commercial Bank.

   H_1 FDI has not significant impact on the growth and development of Public Sector Commercial Bank.

2. **H_0** FDI has significant impact on the growth and development of Punjab National Bank.

   H_1 FDI has not significant impact on the growth and development of Punjab National Bank.

1.7 Research Methodology

The validity of any research will be based on the systematic method of data collection and analysis. The present study will be descriptive and analytical in nature. The study will extensively use secondary source of data, from various sources like.

- Handbook of statistics on the Indian Economy.

- Economic Survey, Government of India.
- Books
- Journal and Magazines
- Working Papers
- Publication of RBI
- Working Papers
- Discussion Papers
- Governmental and Non-Governmental reports
- Economics Dailies and Newspapers
- Web Sources etc.

The data collected will be analysed with the help of suitable mathematical and statistical tools and techniques like.

- Ratio Analysis: With the help of ratios, we have been able to study
- Study of Proportionate Share with the help o Proportion:
- Trend Analysis:
- Standard Deviation:
- Correlation Analysis:
- Regression Analysis: (Multiple Regression Analysis software)
- T-Test:

1.8 Plan of Work

Present work will be divided into five chapters. The brief outline of these chapters are stated below.

Chapter 1: Introduction

In this chapter focus will be given on impact of Foreign Direct Investment (FDI) practices in Banking Sector in India. This chapter will includes objectives and importance of the study followed by hypothesis, methodology and analytical tools. This chapter will also include, plan of the work.

Chapter 2: Public Sector Commercial Bank In India: An Overview

This Chapter will provide an overview on Indian Banking Sector. This chapter will give focus on history, development and growth of Banking Sector in India and the entry of new players in Indian Banking Sector.

Chapter 3: Foreign Direct Investment in Indian Public Sector Commercial Banks

The banking sector in India has been instrumental in shaping economic development of the country. This chapter will highlight the role of FDI in improving the status of Indian Public Sector Commercial Banking System.

Chapter 4: Impact of Foreign Direct Investment on the Growth and Development of Indian Public Sector Commercial Banks with special reference to PNB – An Analysis

In this chapter analysis will be made on analysis of Impact of Foreign Direct Investment (FDI) in Indian Public Sector Commercial Banks.

Chapter 5: Conclusion and Suggestion

In this chapter of the present study major findings will be presented. Thereafter conclusions will be drawn and suitable suggestions will be put forth for making Indian Public Sector Commercial Banks more profitable.

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